



# A User's Guide for the Bank Holding Company Performance Report

March 1999

Board of Governors of the Federal Reserve System  
Division of Banking Supervision and Regulation  
Washington, D.C. 20551



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# Foreword

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*A User's Guide for the Bank Holding Company Performance Report* is designed to serve as an aid in using the *Bank Holding Company Performance Report* (BHCPR). The guide provides definitions of the financial ratios and items presented on each page of the BHCPR.

Questions or comments relating to this guide should be referred to the Surveillance Section at the Federal Reserve Board by calling (202) 452-3744. Specific questions or comments pertaining to information contained in an individual bank holding company's performance report should be

addressed to the appropriate Federal Reserve Bank as indicated on the BHCPR cover page. The district number, address, and telephone number of each Federal Reserve Bank are listed below.

District Number	Name and Address of Federal Reserve Bank	Telephone Number (of Surveillance Staff)
1	Federal Reserve Bank of Boston 600 Atlantic Avenue Boston, MA 02106-2076	(617) 973-3344
2	Federal Reserve Bank of New York 33 Liberty Street New York, NY 10045-0001	(212) 720-7962
3	Federal Reserve Bank of Philadelphia Ten Independence Mall Philadelphia, PA 19106-1574	(215) 574-4304
4	Federal Reserve Bank of Cleveland 1455 East Sixth Street Cleveland, OH 44114-2566	(216) 579-2951
5	Federal Reserve Bank of Richmond 701 East Byrd Avenue, 12th Floor Richmond, VA 23261-7622	(804) 697-8242
6	Federal Reserve Bank of Atlanta 104 Marietta Street, NW Atlanta, GA 30303-2713	(404) 589-7217
7	Federal Reserve Bank of Chicago 230 South LaSalle Street Chicago, IL 60604-1413	(312) 322-5938
8	Federal Reserve Bank of St. Louis 411 Locust Street St. Louis, MO 63102-2034	(314) 444-8764

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|----|--|----------------|
| 9  | Federal Reserve Bank of Minneapolis<br>250 Marquette Avenue<br>Minneapolis, MN 55480-0291  | (612) 204-5066 |
| 10 | Federal Reserve Bank of Kansas City<br>925 Grand Avenue<br>Kansas City, MO 64198-0001  | (816) 881-2473 |
| 11 | Federal Reserve Bank of Dallas<br>2200 N. Pearl Street<br>Dallas, TX 75201<br><i>Mailing Address:</i><br>Station K<br>P.O. Box 655906<br>Dallas, TX 75265-5906 | (214) 922-6052 |
| 12 | Federal Reserve Bank of San Francisco<br>101 Market Street<br>San Francisco, CA 94120-7702   | (415) 974-3006 |

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## Section 1: Introduction

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The *Bank Holding Company Performance Report* (BHCPR) is an analytical tool produced by the Federal Reserve System for supervisory purposes, including on-site examinations and inspections, off-site surveillance and monitoring, and analyses performed in connection with applications filed with the Federal Reserve regarding mergers, acquisitions, and other matters. The BHCPRs are

designed to assist analysts and examiners in determining a bank holding company's financial condition and performance based on financial statements, comparative ratios, trend analyses, and percentile ranks relative to its peers.

It should be noted that no single financial ratio, percentile rank, or trend shown in the BHCPR should

be assumed to be conclusive evidence of a specific firm's financial condition. In appraising a bank holding company's financial condition, an analyst must make a judgment based on an analysis of a variety of factors and interrelationships and on peer group comparisons.

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## Section 2: Technical Information

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### Description

The *Bank Holding Company Performance Report* is a computer-generated report of current and historical financial information produced quarterly for top-tier bank holding companies with consolidated assets of \$150 million or more and for top-tier multi-bank holding companies with outstanding debt to the general public or engaged in a nonbank activity involving financial leverage or engaged in credit extending activities.

Peer group average reports also are available. These reports contain statistics on the average performance of groups of bank holding companies with common characteristics such as size and location. (See the description of BHCPR peer groups on page 2-2.)

### Data Source

The financial data presented in the *Bank Holding Company Performance Report* are derived from financial reports which bank holding companies are required to file quarterly with the Federal Reserve System. These financial reports are the *Consolidated Financial Statements for Bank Holding Companies* (FR Y-9C) and the *Parent Company Only Financial Statements for Large Bank Holding Companies* (FR Y-9LP). Detailed descriptions of data elements contained in the FR Y-9C and FR Y-9LP report forms are found in the *Instructions for Preparation of Consolidated Financial Statements for Bank Holding Companies* and the *Instructions for Preparation of Parent Only Financial Statements for Bank Holding Companies*, respectively. These report forms and their corresponding instructions are available on the Federal Reserve Board's Public web site at the following URL:

<http://www.federalreserve.gov/boarddocs/reportforms>.

### Report Format

An individual *Bank Holding Company Performance Report* consists of four sections:

- the *Introductory Page*, which shows a Table of Contents and indicates the peer group classification and certain characteristics of the bank holding company (BHC);
- the *Summary Ratios* page, which presents selected key financial ratios to measure consolidated earnings and profitability, loan losses, nonaccrual assets and other real estate owned, liquidity, capital, leverage, growth rates, and selected parent company ratios;
- the *Consolidated Information* section, which contains detailed income and expense account items and ratios used to measure the condition of the consolidated bank holding company and provides balance sheet information on asset and liability composition, including the loan and investment portfolio, liquidity and funding, off-balance-sheet derivative instruments, allowance for loan and lease losses, charge-offs, past due and nonaccrual assets, capital, and foreign activities; and
- the *Parent Company Information* section, which provides detailed financial data on the parent company only organization including measures of profitability, leverage, cash flows, and dependence on subsidiaries.

Each performance report displays financial statistics for five time periods. Interim reports (for the March, June, and September reporting periods) provide information for the current quarter, the previous year's comparable quarter, and the last three calendar year-ends. The December year-end performance report presents five calendar years of data.

Numerical information displayed in the BHCPR is expressed as:

- a dollar amount in thousands of dollars (except when otherwise indicated);
- a ratio (expressed as a percentage or a multiple) that relates two or more financial statement items for an individual company;
- an average of account balances or of ratio values for a group of BHCs;
- a percentile rank of an individual BHC's ratio within its peer group;
- a percentage change from the prior year's like quarter or five years earlier; or
- an aggregate sum of an account balance or of the number of BHCs in a peer group.

Dollar values for income and expense items and for changes in equity capital, charge-offs, and recoveries are expressed in the BHCPR as year-to-date amounts. Ratios that involve income and expense items, charge-offs, recoveries, or changes in equity capital are annualized for interim reporting periods. (See the description of annualization on page 2-3.)

### Available Reports

Four different types of BHCPRs are available—individual bank holding company reports, peer group average reports, state average reports, and a national average report.

### Individual BHC Reports

An individual BHC report contains company-specific account balances, financial ratios, and percentile ranks relative to the BHC's peer group. This report also presents peer group ratio



averages of the BHC’s associated peer group. For sample pages and definitions of the items found in this report, refer to Section 3 of this manual and Appendix A for the regulatory version of certain BHCPR pages.

Peer Group Average Reports

A peer group average report provides, for a selected peer group, the averages of financial ratios presented in the individual BHCPRs. The report is available for each of the seven peer groups of top-tier BHCs (see the description of peer groups below). The method for calculating peer group ratio averages is described below. Ratio definitions used in calculating peer group averages are identical to those presented in individual BHCPRs and are found in Section 3 of this manual. (See Appendix C for a sample peer group average report.)

State Average Reports

A state average report contains aver-

age financial ratios for top-tier bank holding companies located in each state or the District of Columbia. In addition, a state average report presents ratio averages for three intra-state peer groups based upon the following asset sizes: less than \$150 million in consolidated assets, more than \$150 million but less than \$1 billion in consolidated assets, and more than \$1 billion in consolidated assets.

State ratio averages correspond to the set of financial ratios printed on the Summary Ratios page of individual BHCPRs. (For definitions of ratios in the state averages report, please refer to ratio definitions beginning on page 3-5 of this manual.) Other information contained in a state average report are aggregate assets, aggregate net income, and the number of BHCs that constitute a peer group.

State average reports along with the national average report comprise one set of BHCPR reports. However, a state average report for

the particular state in which a BHC is located is attached to each individual performance report. (See Appendix D for a sample state average report.)

National Average Report

Ratio averages for all top-tier BHCs in the U.S. with consolidated assets of more than \$150 million and multi-bank holding companies (i.e., all BHCs in peer groups 01 to 07) are printed in a one-page national average report. Ratios printed in the national average report are defined in the Summary Ratios section on page 3-5. (See Appendix E for a sample national average report.)

Peer Groups

Each U.S. bank holding company with consolidated assets of at least \$150 million, a multi-bank holding company with debt outstanding to the general public, or a multi-bank holding company that is engaged in a nonbank activity (either directly or indirectly) involving financial leverage or engaged in credit extending activities is classified into one of eight peer groups based on the criteria listed in Table 1.

To show changes in a company’s peer group affiliation, the BHCPR identifies the BHC’s associated peer group for each reporting period by displaying the two-digit peer number above the “Peer” column of the report page.

Table 1. Peer Group Classification

Peer Group Number	Consolidated Asset Size at the End of the Quarter
	Top-tier BHCs excluding atypical BHCs:
01	\$10 billion and over
02	\$3 billion - \$10 billion
03	\$1 billion - \$3 billion
04	\$500 million - \$1 billion
05	\$300 million - \$500 million
06	\$150 million - \$300 million
07	Less than \$150 million <sup>1</sup>
09	Second-tier BHCs and atypical BHCs <sup>2</sup>

1. Peer group 7 includes only multi-bank holding companies with debt outstanding to the general public or that are engaged in a non-bank activity (either directly or indirectly) involving financial leverage or engaged in credit extending activities.

2. Peer group ratio averages and percentile rank data are omitted from individual BHCPRs generated for lower-tier and atypical BHCs. Second- or lower-tier companies in an organizational structure with consolidated assets of \$1 billion or more are required to file the FR Y-9C and LP with the Federal Reserve

System. A BHC is considered an atypical company if:

- it does not consolidate financial statements for all subsidiaries;
- it has significant non-bank activities;
- its parent company is itself a bank; or
- its operations deviate significantly from other holding companies in the same size category.

Atypical companies are excluded from the calculation of peer group ratio averages to prevent the distortion of comparative financial ratios.

Peer Group Ratio Averages

Peer group ratio averages are included in the BHCPR to serve as a frame of reference for evaluating the financial condition and performance of a specific company relative to other firms with similar characteristics. This information serves as a benchmark against which an individual company’s balance sheet structure and earnings are evaluated.

A peer group average for a financial ratio is the arithmetic mean of the ratio values calculated for all BHCs in a selected peer group subject to upper and lower limits (exclusion factors). To reduce the influence of erroneous or atypical data on peer group ratio averages, values falling outside the upper or lower limits are excluded from the calculation of the peer group average. The procedure is as follows. For each ratio, data for all BHCs comprising a peer group are used to determine the upper and lower limits by first calculating the mean and the standard deviation. Next, the upper (lower) limit is computed as the mean plus (minus) two standard deviations. Ratio values exceeding the upper limit (or falling below the lower limit) are then excluded from the calculation of an "adjusted" mean, which is called the peer group average.

### Percentile Rank

The percentile rank is a value that ranges from 0 to 99 and is displayed in a column to the right of the bank holding company and peer group columns. It reflects the statistical position of a bank holding company within an array of ratio values for all members of a specified peer group. Moreover, it describes how high or low a bank holding company's financial ratio is when compared with the ratio values of other BHCs in the peer group. Depending upon the financial ratio analyzed, a high percentile rank may indicate a positive or negative attribute. A high percentile rank for ratios that vary directly with financial soundness (e.g., return on assets or equity capital to total assets) may indicate strength in the particular area measured. Conversely, a high percentile rank for ratios that vary inversely with financial soundness (e.g., net charge-offs to total loans or noncore funding dependence) may indicate a weakness. When using the percentile rank as a means of determining strength or weakness in a financial area, an analyst should use this

measure in conjunction with other data such as the appropriateness of the peer group to which the BHC is being compared and related measures of performance.

Percentile ranks for ratio values that exceed the upper limit or fall below the lower limit are replaced with "+++" or "---," respectively, in individual BHCPRs.

### Average Balances

Two methods for calculating average balances of assets and liability accounts are employed in the BHCPR: the four-point and the five-point average balances. The four-point formula applies to quarterly average balances reported by the BHC in Schedule HC-E (Quarterly Averages) of the FR Y-9C report form. This approach involves the calculation of the arithmetic mean by dividing the cumulative sum of the quarterly average balances to date by the number of quarters that elapsed as of the report date (i.e., one for the March quarter, two for the June quarter, three for the September quarter, or four for the December quarter).

The five-point method is applied to end-of-quarter balances of accounts reported on the balance sheet and accompanying schedules, other than Schedule HC-E. A five-point average is calculated by dividing the cumulative sum of the end-of-quarter balances (beginning with the previous year-end and ending with the most recent quarter) by the number of reporting quarters (i.e., two for the March quarter, three for the June quarter, four for the September quarter, or five for the December quarter). Prior to March 1997, multi-bank holding companies below \$150 million in consolidated assets with debt outstanding to the general public or that engaged in a nonbank activity (either directly or indirectly) involving financial leverage or engaged in credit extending activities were not required to complete Schedule HC-E of the FR Y-9C report. For these companies, therefore, pre-March 1997

BHCPRs generated a proxy for data items collected in Schedule HC-E. The proxy was determined by calculating the arithmetic mean of the account balances at the beginning and end of the reporting quarter (e.g., average loans and leases for the second quarter was the average of reported consolidated loans and leases as of the March 31 and June 30 reporting periods).

### Annualization

Annualization is the process of converting a ratio to an estimated annual rate by multiplying a ratio generated during the March, June, or September quarters by a factor (4, 2, or 1.33, respectively). A ratio value is annualized when it relates an income account, expense account, or loan loss/recovery item to a balance sheet item. Examples of annualized ratios are the yields on specific assets or cost of funds. The purpose of annualization is to facilitate trend analysis and to make the comparison of interim-period data consistent with annual data.

### Tax Equivalency

Tax-exempt income items in the BHCPR are adjusted to estimate the amount that would result if the income were subject to federal and state income taxes. This result is called the fully taxable equivalent (FTE) income. The following terms are defined below: tax equivalent adjustment, total tax equivalent adjustment, and other tax equivalent adjustment.

The tax equivalent adjustment results when net interest income is deducted from the amount of fully taxable equivalent net interest income reported in the memoranda section of Schedule HI of the FR Y-9C report form. An estimate of the applicable tax benefit on tax-exempt securities is derived first by subtracting interest income on securities from the FTE interest income on securities and then

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multiplying the result by the pro-rata share of the tax equivalent adjustment (that is, the proportion of total tax-exempt interest income accounted for by the tax-exempt income on municipal securities). Similarly, the tax benefit on loans and leases is defined as the pro-rata share of the tax equivalent adjustment based on the proportion of total tax-exempt interest income accounted for by tax-exempt income on obligations (other than securities) of states and political subdivisions in the U.S. and on lease financing receivables.

Total tax equivalent adjustment is derived by subtracting pretax income from the taxable equivalent pretax income. The amount of "other tax equivalent adjustments" is computed by deducting the tax benefit on tax-exempt income on securities and loans and leases from the total tax equivalent adjustment.

### **Growth Rates**

One-year and five-year percentage changes are provided for certain income statement and balance sheet accounts. The BHCPR calculates the one-year percentage change by subtracting the year-ago quarter account balance from the latest quarter's account balance and then dividing the result by the year-ago account balance. Likewise, the five-year percentage change is computed by subtracting the account balance for the corresponding quarter five years earlier from the latest quarter's account balance and then dividing the difference by the latter value.

The BHCPR prints "+++++" or "-----" to replace computed values for growth rates or percentage changes that exceed 999.99 percent or fall below -999.99 percent, respectively. If the value of the latest

quarter's account balance is negative or if the year-ago quarter's account balance is equal to zero or is negative, the BHCPR displays an "NA" instead of the computed growth rate.

### **Missing Data**

In general, dollar amounts and ratio values for FR Y-9C or LP data items that were not collected in the past appear on the BHCPR as "NA" for periods prior to the initial reporting date. The BHCPR also displays an "NA" when the divisor of a ratio is equal to zero or in a case where the divisor consists of a negative value for net income or equity capital.

The BHCPR handles extremely large positive or negative values that do not fit within the data columns by replacing the values with "+++++" or "-----," respectively.